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Motor Vehicle Leases and Rentals

The purpose of this Tax Fact is to explain how South Dakota state and local taxes apply to motor vehicle lease and rentals. It is not intended to answer all questions that may arise. The information contained in this fact sheet is current as of the date of publication.

January 2021

Lease and Rentals

With few exceptions, the sale of products and services in South Dakota are subject to sales tax or use tax. One exception is the sale or purchase of a motor vehicle subject to the motor vehicle excise tax.

- If you rent or lease a motor vehicle for 28 days or less to customers in South Dakota, the rental fee is subject to state and municipal sales tax and may be subject to tourism tax and motor vehicle gross receipts tax.
* The next page shows the tax that applies to the lease or rental receipts for certain vehicles.
- You may purchase motor vehicles to lease or rent without paying sales tax.
- Dealers are required to collect the state sales tax and any applicable municipal sales tax, motor vehicle gross receipts tax, and tourism tax on any vehicle, product, or service they sell that is subject to sales tax in South Dakota.

Motor vehicles not subject to motor vehicle excise tax include:

- Motorcycles, cars, pickups, and vans that will be rented for 28 days or less
- Trailers with a trailer ID plate under [SDCL 32-5-8.1](#) that have an unladen weight of 9,000 pounds or more and are rented for 6 months or less

These are subject to the Motor Vehicle Gross Receipts tax under [SDCL 32-5B-20](#).

South Dakota Taxes and Rates

Motor Vehicle Excise Tax – Applies to the purchase of most motor vehicles.	4%
State Sales Tax and Use Tax – Applies to all sales or purchases of taxable products and services.	4.5%
The following tax may apply in addition to the state sales tax:	
Municipal Sales Tax and Use Tax – Applies to all sales of products and services that are subject to the state sales tax or use tax if the purchaser receives or uses the product or service in a municipality that imposes a sales tax or use tax.	1 to 2%
Motor Vehicle Gross Receipts Tax – Applies to the rental of motorcycles, cars, trucks, and vans for less than 28 days, and the rental of certain trailers for 6 months or less.	4.5%
Tourism Tax – Applies to the rental of certain motor vehicles. Tourism tax does not apply when you are remitting use tax.	1.5%

If a dealer is in the business of renting or leasing motor vehicles, the dealer must title the rental or leased vehicles in a separate and distinct name from that of the dealership.

Motor Vehicle Leases and Rentals

The following table shows the tax that applies to the lease or rental receipts for certain motor vehicles. This is not an all-inclusive list of motor vehicles. For title, license, and registration information on a specific vehicle, please contact your County Treasurer.

For tax information on vehicles that will be purchased, see the Tax Fact on [Motor Vehicle Sales & Purchases](#).

For any vehicle type not specifically listed below, please contact your County Treasurer for applicable taxes.

Motor Vehicle Lease and Rentals - Applicable Taxes													
Vehicle	Taxes that apply to the Lease or Rental Payments												
	Sales or Use Tax	Municipal Sales or Use Tax	Tourism Tax	Motor Vehicle Gross Receipts Tax	Motor Vehicle Excise Tax								
Automobiles, Pickups, Vans, and Motorcycles <ul style="list-style-type: none">Leased or rented under a single contract for <u>28 days or less</u>Leased or rented under a single contract for <u>more than 28 days</u>If this same vehicle is later rented for 28 days or less, the receipts from that rental are subject to the state and applicable municipal sales tax, motor vehicle gross receipts tax, and tourism tax.	Yes	Yes	Yes	Yes	No								
	No	No	No	No	Yes								
Trailers with a trailer ID plate under SDCL 32-5-8.1 that have an unladen weight of 9,000 pounds or more <ul style="list-style-type: none">Leased or rented under a single contract for <u>28 days or less</u>Rented under a single contract for <u>more than 28 days but less than 6 months</u>Rented for <u>more than 6 months</u>	Yes	Yes	No	Yes	No								
	No	No	No	Yes	No								
	No	No	No	No	Yes								
Recreational Equipment that are motor vehicles under SDCL 32-5-1 <ul style="list-style-type: none">Leased or rented under a single contract for <u>28 days or less</u>Leased or rented under a single contract for <u>more than 28 days</u> <p>Includes:</p> <table><tr><td>ATVs</td><td>Snowmobiles</td></tr><tr><td>Campers</td><td>Snowmobile trailers</td></tr><tr><td>Camping trailers</td><td>Watercraft trailers</td></tr><tr><td>Motor coaches</td><td>Watercraft (Boats)</td></tr></table>	ATVs	Snowmobiles	Campers	Snowmobile trailers	Camping trailers	Watercraft trailers	Motor coaches	Watercraft (Boats)	Yes	Yes	Yes	No	No
ATVs	Snowmobiles												
Campers	Snowmobile trailers												
Camping trailers	Watercraft trailers												
Motor coaches	Watercraft (Boats)												
	No	No	No	No	Yes								
Recreational Equipment that are <u>not</u> motor vehicles under SDCL 32-5-1 <ul style="list-style-type: none">Leased or rented under a single contract for <u>28 days or less</u>Leased or rented under a single contract for <u>more than 28 days</u> <p>Includes:</p> <p>Electric Bicycles</p> <p>Mopeds*</p> <p>* Taxation may be different if a moped is titled and registered.</p>	Yes	Yes	Yes	No	No								
	Yes	Yes	Yes	No	No								

Motor Vehicle Leases

Additional Consideration Paid on a Lease

If a lease is extended from that of the initial lease period, or if additional consideration is paid during a lease or upon termination of a lease, additional taxes are due. An [Extended or Additional Consideration Lease Tax Worksheet](#) is completed and submitted to the Motor Vehicle Division, along with the appropriate taxes.

- If the vehicle is leased for an additional period of time, the motor vehicle excise tax shall be assessed on the additional lease payments. The lessor is responsible for completion of the worksheet and payment of the taxes.
- If additional consideration is paid during the course of the lease or upon termination of the lease, the motor vehicle excise tax shall be assessed on such amount. The lessor is responsible for completion of the worksheet and payment of the taxes.
 - ⇒ Additional consideration paid during a lease or upon termination of a lease does not include late fees assessed for late lease payments.
- If the lessee buys the vehicle at the end of the lease, the motor vehicle excise tax is assessed on the purchase price. The lessor shall assign the title and certify the purchase price. The title must be submitted to the lessee's county treasurer's office with the required fees and taxes.

Tax Credit for Total Loss of Leased Vehicle

If the motor vehicle lease tax has been paid on a current qualifying lease, and the vehicle is destroyed to the extent that constitutes a total loss, a credit will be given for the motor vehicle lease tax paid for the remaining lease period.

To qualify for the credit:

1. There must be a total loss of the vehicle subject to the previous lease (example: fire, accident, or vandalism); or
2. A new lease must be executed or a vehicle must be substituted under the original lease
 - ⇒ the new lease or substituted vehicle under the original lease shall be executed by the same lessor and lessee;
 - ⇒ the vehicle must be of the same or make, model, year, and options as the vehicle subject to the previous lease;
 - ⇒ for the remaining lease period of the previous lease; and
 - ⇒ for the same lease price.

The lease shall contain the same lease terms as the previous lease.

Optional Products or Services

The following items may be included with a vehicle rental. The charges for these items are subject to the same tax as the vehicle rental whether the rental agency lists each charge on the customer's invoice or includes it in the car rental fee.

- | | |
|---|---|
| • Additional driver fee | • Frequent flyer surcharge |
| • Airport concession fees and facility fees | • Fuel and service charges |
| • Car navigational (GPS) system | • Fuel purchase option |
| • Car Satellite radio | • Loss damage waiver |
| • Child seat | • Rental tax surcharges |
| • Drivers 24 years or younger | • Ski racks |
| • Drop charges | • Up charges for nonstandard vehicles |
| • Emergency roadside service | • Vehicle licensing fees passed onto customer |
| • Energy surcharges | |
| • Exceeding mileage | |

Insurance Premiums

A car rental company does not owe sales tax on the insurance premiums customers pay for insurance the rental company sells when the following criteria are met:

1. The insurance is from a licensed insurance company;
2. The entire amount charged to the customer for the premium is subject to insurance premiums tax; and
3. The charge is itemized on the customer's invoice.

If the charge to the customer for the insurance is greater than the amount the insurance company pays insurance premiums tax on, the entire charge is subject to sales tax.

Delivery and Handling Fees

The retailers' charge for delivery is subject to the same state and municipal sales tax rate as the product or service sold. If the product or service sold is not taxable, the delivery charge is not taxable.

Delivery charges include any charge for transportation, shipping, postage, handling, crating, and packing.

If you hire a transportation company and bill the customer for the transportation service, your receipts for the transportation charge are subject to the same tax as the product sold.

When a shipment contains taxable and nontaxable products, sales tax is due on the portion of the delivery charge for the taxable products. This is determined by using a percentage of the sales price compared to the total sales or a percentage of the weight of the taxable products compared to the total weight of all products in the shipment.

Examples:

1. *A parts store ships a part to a customer in rural Minnehaha County for \$200 plus \$20 delivery.*
 - The parts store owes state sales tax on \$220. No municipal sales tax is due because the customer takes possession outside the city limits.
2. *A parts store sells spark plugs to a repair shop in Watertown for \$100 plus \$10 delivery. The repair shop provides the parts store with an exemption certificate.*
 - The store does not owe sales tax as this is a sale for resale.
3. *Jones Auto sells and delivers the following items to Fred's Farm Store in Pierre: 2 tires for resale for \$1000 and 1 tire display rack for use by Fred for \$1000. Jones bills Fred \$2000 plus \$200 delivery. Fred gave Jones an exemption certificate for the two tire.*
 - Jones charges state sales tax plus Pierre municipal sales tax on \$1,100 (\$1000 for the display rack plus \$100 shipping). Taxable shipping was determined by dividing the taxable products by the total sale (\$1000/\$2000 = 50%). 50% of the shipping is taxable (\$200 x 50% = \$100).

Sourcing - Which State or Municipal Tax Applies?

With the exception of motor vehicles and transportation equipment, sales tax applies to the first lease payment where the lessee receives or takes possession of the product. If the leased product is moved to a new location and the lessee tells the lessor the new location, sales tax applies to each additional lease payment based on the new location. If the lessor does not know the leased product's new location, sales tax will continue to apply based on where the lessee originally received the product.

The intermittent use at different locations, such as use of business property that accompanies employees on business trips or service calls, does not alter the property location.

Motor Vehicles Lease or Rentals:

Includes the lease or rental of motor vehicles, trailers, or semitrailers that do not qualify as transportation equipment.

One payment covers the entire lease or rental:

- The payment is taxed where the customer receives or takes possession of the property.

The lease or rental includes *more than one payment*:

- Each payment, including the first payment, is taxed at the primary property location, which is the address for the property the lessee provides the lessor. Occasional use at a different location does not change the primary property location.

Example:

1. *Rusty Car Rental in Rapid City rents a car to John for 7 days. John uses the car to tour the Black Hills and Badlands in South Dakota.*
 - All charges on the rental are subject to the same tax.
 - The Collision Damage Waiver is not insurance.
 - Rapid City tax applies because the car was delivered to John at the Rapid City airport.

7 Day Rental		
Full Size Car		\$ 375.00
GPS Navigation		50.00
Collision Damage Waiver		25.00
Airport Facility Fee		20.00
Sub Total		\$ 470.00
Tax	Rate	
State sales tax	4.5%	21.15
Rapid City sales tax	2%	9.40
Tourism Tax	1.5%	7.05
Motor Vehicle Gross Receipts Tax	4.5%	21.15
TOTAL DUE		\$ 528.75

Driving Services

Fees charged for driving a motor vehicle from one location to another are subject to sales tax or use tax. Sales tax applies based on the location to which the vehicle is driven.

For example, if a person drives a car from Highmore to Pierre, the state and Pierre municipal sales tax or use tax is due.

Towing Services

Receipts from towing services are subject to state and municipal tax at the location to which the vehicle is towed. Receipts for towing to a location outside South Dakota are not subject to South Dakota sales tax.

Repairs and Maintenance

Services such as auto repair, maintenance, body repair, oil changes, and customizing are subject to state and municipal sales tax. Sales tax applies to the full charge, including parts, labor, and delivery charges. Repairs and maintenance to rental vehicles are subject to sales tax or use tax whether the rental agency or the customer pays for the service.

Resale Purchases

A rental business cannot buy repair parts or maintenance items for their rental fleet without tax.

Warranties, Service Contracts, and Insurance

Manufacturer's Warranty

Parts and labor furnished to fulfill a warranty obligation of the manufacturer are not subject to sales tax. Receipts from the manufacturer for warranty work are not taxable. No tax is owed on parts taken from inventory to complete work under a manufacturer's warranty, this does not include warranty software.

Receipts from the customer or manufacturer for items not covered by the warranty are subject to sales tax.

Loaner/rental vehicle: A warranty may provide for a loaner or rental vehicle while a car is repaired.

If the manufacturer's warranty states:	Sales Tax or Use Tax Due
No cost to customer for parts	No sales tax or use tax due on the parts
Customer is responsible for a percentage of parts and labor	Sales tax due on the amount charged the customer
Customer pays a deductible for parts or labor	Sales tax due on the amount charged the customer
Customer is responsible for the repair labor	Sales tax due on the amount charged the customer
The manufacturer furnishes you the repair part at no charge	No sales tax or use tax due on the repair part
The manufacturer pays you for the repair part	No sales tax or use tax due on the repair part
The manufacturer pays you for the repair labor	No sales tax or use tax due on the repair labor

- When the manufacturer pays for the loaner/rental vehicle as provided under a warranty, the receipts are subject to the motor vehicles gross receipts tax, but are not subject to sales tax or tourism tax.
- If the customer pays for the rental vehicle, the receipts are subject to state and municipal sales tax, motor vehicles gross receipts tax, and tourism tax.

Extended Service Contracts (Extended Warranty)

Extended service contracts that cover unexpected repair costs are subject to the motor vehicle excise tax when sold at the time of the vehicle purchase.

Extended service contracts sold later are subject to sales tax. Sales tax applies where the extended service contract is delivered to the customer. If customer takes possession at the dealer, the tax rate is based on the dealer's location. If the extended warranty is mailed to the customer, the tax rate is based on the customer's mailing address.

Mechanical Breakdown Insurance

Insurance policies are not considered warranty or service contracts. Insurance premiums are not subject to sales tax; however, the premiums are subject to insurance premiums tax. All charges made to the insurance company for parts and labor are subject to sales tax.

If it is unknown if the service contract is insurance or not, contact the [South Dakota Department of Labor, Insurance Division](#) and ask if the company that sells the contract is a licensed insurance company, or call the Department of Revenue at 1.800.829.9188.

Implied Warranty

If there is no charge for repairs made to a customer's motor vehicle after the sale and those repairs are not covered by a written warranty, use tax is owed on the cost of all parts installed in the customer's vehicle. No use tax is owed on employee labor.

Contact Us

If you have any questions, please contact the **South Dakota Department of Revenue**.

Call toll-free: 1-800-829-9188

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